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IN THE

Supreme Court of the United States

OCTOBER TERM, 1972

No. 72-253

PET INCORPORATED,
Petitioner,

v.

KYSOR INDUSTRIAL CORPORATION,
Respondent.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT

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PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT

Petitioner, Pet Incorporated ("Pet"), prays that a writ of certiorari issue to review the judgment of the United State Court of Appeals for the Sixth Circuit in this action brought by Kysor Industrial Corporation ("Kysor") in the Circuit Court of Wexford County, Michigan. The judgment of the Court of Appeals reversed the district court's determination that the case is within the original jurisdiction of the federal courts and remanded the case to the state court.

Opinions Below

The opinion of the Court of Appeals is reported at 459 F. 2d 1010 and at 173 U. S. P. Q. 642. It is printed in petitioner's Appendix at pp. 21a-23a. The order of the Court of Appeals denying Petitioner's Petition for Rehearing is printed in the Appendix at p. 24a.

The opinion of the District Court is not reported. It appears in petitioner's Appendix at pp. 1a-12a.

Jurisdiction

The judgment of the Court of Appeals was entered on May 5, 1972. The order denying the Petition for Rehearing was entered on July 18, 1972. The jurisdiction of this Court

is invoked under 28 U. S. C. § 1254(1). The District Court based its jurisdiction on 28 U. S. C. §§ 1441(b) and 1338(a).

Question Presented

In determining whether an action brought in the state courts for alleged breach of an agreement is one "of which the district courts have original jurisdiction" under the removal statute, 28 U. S. C. § 1441(b), must the federal court be governed by the plaintiff's assertions as to the nature of the cause of action, as was the Court of Appeals in this case, or should the federal court evaluate the facts pleaded, including interpreting the agreement made a part of the complaint, to determine the nature of the cause of action, as did the District Court in this case?

Statute Involved

28 U. S. C. § 1441 provides in pertinent part:

> "§ 1441. Actions removable generally
>
> • • •
>
> "(b) Any civil action of which the district courts have original jurisdiction founded on a claim or right arising under the Constitution, treaties or laws of the United States shall be removable without regard to the citizenship or residence of the parties."

Statement of the Case

This action for an alleged breach of a 1965 agreement was commenced by Kysor in the Michigan state courts.

The agreement (App. pp. 15a-20a), which was attached to and made part of the complaint, is between Dual Jet Refrigeration Co. (now a division of respondent Kysor) and Hussmann Refrigerator Co. (now a subsidiary of petitioner Pet). Dual Jet and Hussmann both manufacture refrigerated display cases for the sale of food products in supermarkets.

In the 1965 agreement the display cases manufactured by Dual Jet were characterized by a circulation of low-temperature air around the product area so that cooling was accomplished by conductive heat exchange only, a system known as "indirect" cooling. The Hussmann display cases were characterized by a system in which a portion of the low-temperature air was circulated directly into the product area while the remainder of the low-temperature air was circulated around the product area. In short, the Dual Jet display case involved "indirect" cooling of the product, whereas Hussmann, in addition to "indirect" cooling, used at least some "direct" cooling.

While both Hussmann and Dual Jet owned patents covering various aspects of refrigerated display case technology, neither Hussmann nor Dual Jet owned patents covering their respective systems of air circulation.

The 1965 agreement was entered into in settlement of cross claims of patent infringement and the "covenants" granted each party an immunity against suit for patent infringement so long as each party continued to manufacture display cases incorporating the type of cooling system then in use by that party (App. pp. 18a-19a).

In 1971 Pet ("Hussmann") changed from its former cooling system and began manufacturing and selling display cases using an "indirect" cooling system only. Kysor then brought this action in the Michigan state courts alleging that Pet had agreed not to manufacture display cases using only the "indirect" cooling system and that Pet's manufacture of such display cases constituted a breach of the 1965 agreement. Kysor seeks damages and an injunction.

Pet removed the case to the United States district court on the theory that on the allegations of the complaint, the only cause of action available to Kysor was one for patent infringement under the federal patent laws. Kysor's motion to remand the case to the state court was denied by the

District Court (App. p. 11a). The Court of Appeals reversed, ordering the case to be remanded to the Wexford Circuit Court (App. p. 23a).

Reasons for Granting the Writ

The Decision of the Court of Appeals Improperly Restricts the Federal Courts in Determining Their Jurisdiction Under the Removal Statute; the Decision is in Conflict with Decisions of This and Other Courts.

The District Court, after thoroughly reviewing the complaint and the appended agreement, found that the agreement contained no covenant by Hussmann not to make a display unit with a different type of cooling from that used by it at the time of the agreement. The court found that the parties expressly covenanted not to sue one another for patent infringement so long as the cooling system used by the other was unchanged, and that under the agreement, if Pet should change its form of cooling system, Kysor had retained only its right to sue for patent infringement. The District Court said:

> ". . . the contract specifically contemplates that each party is free to commence an action for infringement of its patents by the other in any other use than that permitted in the contract and that is precisely what plaintiff is doing here in every particular." (App. p. 10a)*

The court concluded that the true nature of the dispute between the parties arose under the federal patent laws,

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* The agreement states (App. p. 19a):

"IV. GENERAL PROVISIONS

"1. This Agreement does not in any way prevent DUAL JET from bringing suit against HUSSMANN, its subsidiaries, licensees or sublicensees, in the event that any DUAL JET patent rights are embodied in units other than the HUSSMANN unit as herein defined.

"2. This Agreement does not in any way prevent HUSSMANN from bringing suit against DUAL JET, its subsidiaries, licensees or sublicensees in the event that any HUSSMANN patent rights are embodied in units other than the DUAL JET unit as herein defined."

and that the cause of action being asserted by Kysor was for patent infringement, a claim within the original—and exclusive—jurisdiction of the federal courts. The District Court said:

> "The basic right therefore asserted by Kysor is the right based on federal law which is the right to manufacture exclusively a unit to which plaintiff claims patent rights. This has to be the gravamen of the action regardless of the characterization which plaintiff may have endeavored to give it in the complaint." (App. p. 9a)

Kysor, in support of its position that it has a cause of action for breach of contract, relied on language contained in the section of the agreement devoted to definitions (App. pp. 16a-18a) and not in the portion setting forth covenants.*

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* The agreement states:

"I. DEFINITIONS

"1. HUSSMANN unit: As used herein, the term 'HUSSMANN unit' shall mean low temperature upright refrigerated display cabinets in which the main refrigeration system shall include air distribution means for circulating a substantial portion of low temperature air into and through the product area and in direct contact with the product therein for cooling the product, and to discharge the remaining portion of low temperature air into an air curtain across the open front of said cabinet.

"Since it is difficult to ascribe an exact percentage with respect to the "substantial portion" of low temperature air circulated into and through the product area according to the foregoing definition of "HUSSMANN unit", it is understood and agreed that the salient characteristic of the HUSSMANN unit is the positive circulation of low temperature air through the product area for direct and controlled cooling of products by intentional engineering design and manufacture to provide this salient characteristic and that HUSSMANN will not depart from its present engineering and manufacturing know-how in the direction of the DUAL JET unit utilizing essentially only indirect product cooling." (App. pp. 16a-17a).

The District Court determined that, when read in context, the language pointed to by Kysor was not intended as a covenant and did not give rise to a cause of action for breach of contract (App. pp. 7a-8a).

The circumstance that Kysor's asserted interpretation of the agreement would make the agreement a clear violation of the anti-trust laws, e.g. *Dole Refrigerating Co.* v. *Kold-Hold Mfg. Co.*, 185 F. 2d 809 (6 Cir. 1950), and wholly inconsistent with the federal policy favoring unhindered commerce and full and free use of ideas, absent valid patent rights, e.g. *Massillon-Cleveland-Akron S. Co.* v. *Golden State Adv. Co.*, 444 F. 2d 425, 428 (9 Cir. 1971), *cert. denied* 404 U. S. 873 (1971); *Lear, Inc.* v. *Adkins*, 395 U. S. 653 (1969), was invoked by the District Court as confirmation of the fact that its interpretation of the agreement was correct (App. pp. 8a-9a). This was pursuant to the well established doctrine that where, as here, a contract is subject to two different interpretations, one of which renders it legal and the other of which renders it illegal, then the legal interpretation should be adopted. *Great Northern Ry.* v. *Delmar Co.*, 283 U. S. 686, 691 (1931); *Lewis* v. *Pennington*, 400 F. 2d 806, 814-815 (6 Cir. 1968), *cert. denied* 393 U. S. 983 (1968); *Perry Coal Company* v. *N. L. R. B.*, 284 F. 2d 910, 914 (7 Cir. 1960); *Scapa Dryers, Inc.* v. *Abney Mills*, 269 F. 2d 6, 14 (5 Cir. 1959); *Eddy* v. *Prudence Bonds Corporation*, 165 F. 2d 157, 161 (2 Cir. 1947), *cert. denied* 323 U. S. 845 (1948); *Corbin on Contracts*, § 546, pages 170-171, Vol. 3 (1960 Ed.).

The Court of Appeals reversed stating:

> "Pet's jurisdictional theory, upon which removal was predicated, is that the agreement, construed as asserted by Kysor in its complaint to bar Pet's manufacture and sale of indirect cooling units, was void and unenforceable under federal anti-trust law in the absence of valid and infringed patents. Pet therefore contends that the action turns on questions of

> patent validity and infringement and thus is exclusively within federal jurisdiction under 28 U. S. C. § 1338(a)."

And further:

> "Kysor elected to assert only contract rights in State Court. Pet may not, by asserting that Kysor's only *valid* cause of action is by way of suit for patent infringement, convert this action into one arising under the patent laws of the United States." (Emphasis in original) (App. p. 23a)

The opinion of the Court of Appeals reflects a misunderstanding of the basis of the District Court's decision denying the motion to remand and of Pet's contentions.

The District Court recognized, as does Pet, that the fact that federal issues may be raised by way of defense provides no basis for removal to the federal courts of any cause of action cognizable by the state courts; and further that where a plaintiff has claims arising under both state and federal law, he may elect to pursue the state court claim. Thus, contrary to the statement in the opinion of the Court of Appeals, neither the District Court, nor Pet has suggested that this case was removable from the state court merely because a defense based on the federal anti-trust laws could be asserted against Kysor's alleged cause of action for breach of contract.

The jurisdictional theory underlying the District Court's decision is that the 1965 agreement between Kysor and Pet, made a part of Kysor's complaint in the state court, gives rise to *no* state cause of action whatsoever, but reserves to Kysor only the right to bring an action for patent infringement against Pet for conduct outside the immunity granted by the agreement and that this was the right asserted by the complaint (App. p. 9a).

As the professed basis for its decision the Court of Appeals states that "Kysor elected to assert only contract rights in State court" (App. p. 23a). This acceptance of

Kysor's assertion as to the nature of its cause of action, without analyzing the facts set forth in the complaint and the agreement appended thereto to determine whether they really give rise to such a cause of action, is wrong and inconsistent with decisions of this Court and other courts. If the basic right underlying the plaintiff's complaint arises under federal law, then removal is proper because it is the real nature of the claim rather than plaintiff's characterization of it that governs, *Lambert Co.* v. *Balt. & Ohio R.R. Co.*, 258 U. S. 377, 382 (1922); *Blease* v. *Safety Transit Co.*, 50 F. 2d 852 (4 Cir. 1931); *Sylgab Steel & Wire Corp.* v. *Strickland Transportation Co.*, 270 F. Supp. 264 (E. D. N. Y. 1967); *Prospect Dairy, Inc.* v. *Dellwood Dairy Co.*, 237 F. Supp. 176 (N. D. N. Y. 1964); *Produce Terminal Realty Corp.* v. *New York, N. H. & H. R. Co.*, 116 F. Supp. 451 (D. Mass. 1953); *S. E. Overton Co.* v. *International Brotherhood, Etc.*, 115 F. Supp. 764 (W. D. Mich. 1953); *Pocahontas Term. Corp.* v. *Portland Bldg. & Const. Tr. C.*, 93 F. Supp. 217 (D. Maine 1950); *Downey* v. *Geary-Wright Tobacco Co.*, 39 F. Supp. 33 (E. D. Ky. 1941); *Kolkin* v. *Gotham Sportswear*, 10 F. Supp. 682 (S. D. N. Y. 1935); *O'Brien* v. *Goldman Sachs Trading Corp.*, Trade Cases (CCH) [1932-1939], par. 55,014, page 55 (S. D. N. Y. 1932); *Hall* v. *Chicago, R. I. & P. Ry. Co.*, 149 Fed. 564 (N. D. Iowa 1906).

The fact that Kysor states in its complaint, and insists in argument, that it has a cause of action for breach of contract, cannot give it one, when the agreement made part of that complaint, when properly construed, gives Kysor only a federal cause of action. As Justice Brandeis said in *Lambert Co.* v. *Balt. & Ohio R.R. Co., supra* (258 U. S. at 383):

> "For, while it is true that a plaintiff by his first pleading determines what right he will sue on and that defenses, set up either anticipatorily by him or in due course by the defendant, can not affect the jurisdiction when it depends on that right, *yet the plaintiff may not, by alleging a frivolous claim or a*

> *fictitious situation, confer upon a court jurisdiction which, as determined by plaintiff's real cause of action, it has not.*" (emphasis added)*

Other federal courts have applied this rule to actions, like this one, originally brought in the state court for breach of contract, and have determined after reviewing the complaint and the agreement between the parties that the underlying cause of action was not for breach of contract but was one arising under federal law and subject to original federal jurisdiction. *Produce Terminal Realty Corp.* v. *New York, N. H. & H. R. Co., supra; Sylgab Steel & Wire Corp.* v. *Strickland Transportation Co., supra.***

In the *Produce Terminal* case the terminal and the railroad had a contract relating to facilities to be provided by the railroad. The terminal brought an action in the state court for specific performance of the contract and an injunction against further violation of the contract. After removal by the railroad on the ground that the claim arose under federal law, i.e., the Interstate Commerce Act, the court in refusing to remand the action interpreted the contract alleged in the complaint and stated:

> "It is defendant's contention that the service which plaintiff seeks to obtain by its action is an undue and unreasonable preference or advantage to

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* Although the District Court decided correctly that the cause of action asserted by Kysor falls within the original jurisdiction of the federal courts, and that the case was properly removable, the case should thereupon have been dismissed under the rule of *Lambert Co.* v. *Balt. & Ohio R.R. Co., supra* (258 U. S. at 382-383). According to *Lambert* the jurisdiction of the federal court on removal is derivative and if "the state court lacks jurisdiction of the subject-matter or of the parties, the federal court acquires none." Thus, because this case involves a cause of action for patent infringement, exclusively within federal jurisdiction, the state court was without jurisdiction, and the district court could not acquire jurisdiction by removal.

** The Court of Appeals did not discuss these cases, and neither in the Court of Appeals, nor in the District Court, has Kysor attempted to distinguish them.

a particular customer under § 3(1) of the Act, and that the contract previously mentioned, if given the interpretation for which plaintiff contends, is illegal.

". . . The complaint, says plaintiff, simply sets forth the making of a contract, its breach by defendant, and fraud by defendant inducing plaintiff to enter into the transaction, and asks for specific enforcement of the contract, an injunction against further violation and damages. No question of federal law appears in this, plaintiff contends, and there is no question of federal law involved until defendant sets up the alleged illegality of the contract and brings in the Interstate Commerce Act as a matter of affirmative defense. (p. 453)

• • •

"It is true that the complaint says nothing about the Act and sets forth only the contract between the parties as the basis of the rights which it seeks to enforce. This cannot change the essential nature of the action. In the Interstate Commerce Act Congress has provided a comprehensive scheme of regulation determining the respective rights and duties of shippers and carriers. If the rights which plaintiff claims under its contract are only those given by the Act, the contract adds nothing to them, and the mere fact that the parties have spelled out these rights in a private contract does not change the fact that they arise essentially from the Act. Allen *v.* New York, P. & N. R. Co., 4 Cir., 15 F. 2d 532, 533; Williams *v.* New York, P. & N. R. Co., 4 Cir., 11 F. 2d 363, 364 45 A. L. R. 437.

• • •

"Here the basis of federal law is in the case from the beginning, since the facts which plaintiff alleges in what purports to be an action to enforce a contract are also the facts which would constitute a cause of action under the Interstate Commerce Act, and what plaintiff asserts as a contract right is basically a right arising under that Act." (p. 454)

Conclusion

The decision of the Court of Appeals below is in conflict with decisions of this Court and of other courts, and improperly restricts federal courts in determining their jurisdiction under the removal statute. Certiorari should be granted to resolve this conflict in an important area of federal jurisdiction.

Respectfully submitted,

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APPENDIX

Opinion of District Court

UNITED STATES DISTRICT COURT

FOR THE WESTERN DISTRICT OF MICHIGAN—

SOUTHERN DIVISION—GRAND RAPIDS

File G-162-71 CA 7

KYSOR INDUSTRIAL CORPORATION,
a Delaware corporation,

Plaintiff,

v.

PET INCORPORATED,
a Delaware corporation,

Defendant.

Plaintiff Kysor Industrial Corporation, herein called Kysor, on June 16, 1971, commenced an action against Pet, Incorporated, herein called Pet, in the Circuit Court for Wexford County, Michigan, seeking injunctive relief and damages for the alleged breach by Pet of an agreement which had been entered into April 5, 1965, between plaintiff's predecessor Dual Jet Refrigeration Company, herein called Dual Jet, and defendant's predecessor Hussmann Refrigerator Company, herein called Hussmann. Plaintiff incorporated therein a copy of that agreement and because it is essential to the consideration of the issues here, a copy is likewise attached as an appendix to this opinion along with a copy of the complaint filed in the state court.

The gist of the plaintiff's complaint in the state court is that under the contract of April 5, 1965, Dual Jet and Hussmann had reached an agreement in settlement of several mutually asserted 1965 infringement claims which each had made against the other arising out of the pro-

duction and marketing by each of certain cooling systems in refrigeration units. In settlement of these mutual claims, the agreement was drafted so as to permit each company to continue to manufacture the unit which it was then producing and to that extent each covenanted not to sue the other for any claimed infringement of patent rights by reasons of the embodiment in the particular unit then being produced. The parties encountered acknowledged difficulty in defining the then existing units and the differences between them under that portion of the agreement entitled "Definition" each of the two units was described and in the descriptive paragraph pertaining to each, there was contained the provision that it was understood that each would not depart from its present engineering and manufacturing knowhow in the direction of the unit then being manufactured by the other.

Plaintiff's complaint alleges that in the early part of 1971 defendant, in violation of the agreement, had changed over to a cooling method which was employed by the plaintiff and had continuously since that time manufactured, sold and distributed refrigeration units and cases manufactured in direct contravention to the agreement. Plaintiff alleged irreparable harm and damage by reason of the defendant's violation of the agreement and for relief sought from the state court interlocutory and permanent injunctive orders and damages. Upon application, the circuit court for the County of Wexford had issued an order to the defendant to show cause in that court on July 13, 1971, why the interlocutory injunctive relief should not be granted as prayed, pending further proceedings in the case. On July 8, 1971, defendant filed its petition for removal in this court which automatically removed the case from the jurisdiction of the Wexford County Circuit Court. Defendant's petition for removal was based upon the claim of original and exclusive jurisdiction in United States District Courts on subject matter of the law suit under 28 USCA § 1338.

Plaintiff immediately filed in this court on July 9, 1971, its motion to remand and because of the allegation of the plaintiff that an immediate hearing was essential, in order to avoid irreparable injury which would occur if the scheduled show cause hearing could not proceed on July 13, this court granted an immediate hearing on the motion on the same day.

Because the issues presented by the motion to remand presented substantial issues and meritorious issues of the law which were not capable of immediate decision, the case was taken under advisement and briefs submitted.

The issue thus framed is whether or not from the complainant's statement of its own cause of action as set forth in the complaint and regardless of federal questions which might be interposed by the defense, there exists in the complaint a case arising under the patent laws of the United States which is exclusively within the jurisdiction of the Federal courts or as contended by plaintiff, the complaint pleads a cause of action for contract cognizable only under state law and by state courts, there being absent any allegation of diversity of citizenship or any other basis from which exclusive federal jurisdiction can be made out.

The court agrees with the claim of plaintiff that the question of original jurisdiction in the federal courts must be presented in the plaintiff's own statement of his case and, *Tennessee* v. *Union and Planters Bank,* 152 US 454, that generally the plaintiff has the right to decide in pursuing his own cause of action upon what law he will rely, being free to commence his action in state court under state law and to ignore any rights he might have otherwise under federal law. *The Fair* v. *Kohler Die & Specialty Co.,* 228 US 22; *Bell* v. *Hood,* 327 US 678. Corollary to this is the well accepted rule that the question of defense, based upon federal law, do not give rights to the right of removal to the federal court, the recourse being by appeal to the Supreme Court of the United States if the decisions

of the state courts have not properly recognized and applied the federal defense. The exclusive jurisdiction of this court urged by defendant is conferred under Title 28 USCA Section 1338(a) and (b) which reads as follows:

> "(a) The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, copyrights and trademarks. Such jurisdiction shall be exclusive of the courts of the states in patent and copyright cases.
>
> "(b) The district courts shall have original jurisdiction of any civil action asserting a claim of unfair competition when joined with a substantial and related claim under the copyright, patent or trademark laws."

The court cites with approval the quotations commencing at page 17 of defendant's brief from *Produce Terminal Realty Corp.* v. *New York, N. H. & H. R. Co.*, 116 F Supp 451 (D. Mass. 1953).

> "There is no dispute as to the general rule of law governing the decision here. The question of whether this action is removable as one involving a federal question depends upon whether the cause of action set forth by plaintiff is one arising under federal law. Jurisdiction is not conferred by the fact that defendant may rely upon federal law as a matter of defense. The question must be decided on the basis of what appears in the complaint well pleaded, unaided by anything in the answer or petition for removal. *Gully* v. *First National Bank in Meridian*, 299 US 109, 57 S Ct 96, 81 L Ed 70; *Great Northern Railway Co.* v. *Alexander*, 246 US 276, 38 S Ct 237, 62 L Ed 713.
>
> "The decision must rest, however, on the facts set forth in the complaint. If the basic right asserted

is one based on federal law, then the case is properly here, whether or not the complaint expressly states that the right sought to be enforced is a federal one. It is the real nature of the claim and not the characterization given it by plaintiff which must govern. *Strauss* v. *Schweizerische Kreditanstalt,* D. C., 45 F Supp 449, 450.

"The gravamen of plaintiff's complaint here is that defendant has failed to provide plaintiff and its licensees with adequate facilities for the handling of its traffic in fruits and vegetables. The relief sought is to compel the defendant railroad to 'provide track facilities for the track cars of the plaintiff's licensees for the adequate, prompt and convenient delivery of their traffic.' These facilities are clearly a service included within the transportation of goods in interstate commerce which defendant is required by § 1(4) of the Act to furnish upon reasonable request. *Nutile Fruit Co.* v. *Boston & Maine Railroad,* 155 I.C.C. 221. The complaint thus asserts a right arising under the Act."

See also *S. E. Overton Company* v. *International Brotherhood, Etc.,* 115 F Supp 764, decided by the Hon. Raymond Starr in this District in 1953.

The court has carefully considered the authorities cited by the plaintiff in opposition to the motion to remand to the effect that while federal courts have jurisdiction over all cases arising under the patent laws, they do not have exclusive jurisdiction of questions in which a patent may be the subject matter of the controversy. Thus, in *Cincinnati Shoe Co.* v. *Vigorith,* 212 F 2d, 583, the United States Court of Appeals for the Sixth Circuit, held that state courts have jurisdiction to try the questions of title to existing patents and jurisdiction upon federal courts is not conferred by reason of the Declaratory Judgments Act, 28 USCA 2201, et seq. In a divided opinion, this Circuit

held in *Muskegon Piston Ring Co.* v. *Olsen*, 307 F 2d 85 that the state court rather than the federal district court properly had original jurisdiction over an action in which plaintiff patent owner sought declaratory relief against defendant Olsen who, it claimed, had "engaged in a course of unfair competition with plaintiff consisting of disparagement of plaintiff's right to make and sell piston rings embodying the invention disclosed in plaintiff's patent, libel and slander of plaintiff's title to its patent, threats against plaintiff's customers of liability in large amount for buying and using rings embodying the disclosure of plaintiff's patent, and interference with plaintiff's right to license its patent and otherwise to enjoy the lawful rights and benefits of its patent".

In that case the court found that the defendant had not manufactured the patented article nor had it at that time become an infringer of the plaintiff's patent. Prior to that event plaintiff would not have been entitled to bring a patent infringement case nor could the defendant have himself have sought federal relief under the Declaratory Judgment Act since Mr. Olsen could not have federal right of action against plaintiff until a patent was issued to him and no damages would accrue to him prior to the issuance of a patent. "It follows that if the defendant Olsen does not have a potential claim against Muskegon, the plaintiff here as a potential defendant, upon which he can sue in the federal court, no controversy under the patent laws exists, upon which Muskegon can bring an action for Declaratory Judgment in the federal court." *Muskegon Piston Ring* v. *Olsen*, supra, at page 89.

Likewise, the court has reviewed and considered both *Lear Corp.* v. *Adkins*, 395 US 653 (1969) and *Lear Siegler, Inc.* v. *Adkins*, 330 F 2d 595 (9th Cir. 1964) which will be discussed later, but which initially at least in the controversies before the state court involved an action for royalties under a contract entered into between the parties.

Finding as it does that the question of exclusive federal jurisdiction must be decided upon the complaint and agreement attendant thereto, the court does not consider the exhibits attached to defendant's brief and properly objected to by the plaintiff. It has, however, in addition to the brief, considered the further comment made by plaintiff in the letter of its counsel dated July 29, 1971.

Neither has the court considered any additional facts and claims asserted in the petition for removal which are not contained in the plaintiff's complaint. See *Gully* v. *First National Bank of Meridian*, 229 US 109 (1936); *Great Northern R R Co.* v. *Alexander*, 246 US 276 (1918).

With the foregoing in mind, what is the real nature of the claim asserted in plaintiff's complaint? It is true that nowhere does it specifically allege an infringement of its patent rights by defendant, nor does it specifically invoke federal law as a basis for its cause of action and relief sought. This alone is not controlling, *Downey* v. *Geary-Wright Tobacco Co.*, 39 F Supp 33 (E D Ky 1941), (see cases cited page 17 of defendant's brief), for as acknowledged by the plaintiff, it cannot defeat federal jurisdiction by subterfuge or fraud and it is the essential character of his claim that controls no matter how it might be disguised. If the rights plaintiff claims are only those given by federal law, then the contract means nothing and federal jurisdiction will not be defeated thereby, (page 4 plaintiff's brief).

Recourse must therefore be had to the contract itself to determine whether the plaintiff's action thereon is legitimate or is merely a strategem to avoid what otherwise is properly exclusive federal jurisdiction.

If the matter were simply construction of an enforceable contract with the question of patent rights and infringement collateral thereto, plaintiff's position would be correct. On its face, the complaint purports merely to seek the enforcement of one of its terms. Specifically, it seeks the enforcement by the court of that portion of the agree-

ment which appears in the definition of the Hussmann unit at pages two and three of the agreement. If this were merely a question of construing the contract and an ambiguity therein as to whether the undertakings of that particular provision gave Dual Jet a cause of action against Hussmann for departing from its then-present engineering and manufacturing know-how in the direction of the Dual Jet unit, then the decision of the trial court would be merely to ascertain whether or not this was intended to be a specific covenant of Hussmann even though not within its covenants under Section II or Section IV of the contract. Such a decision, in the opinion of this court, would be a matter for the state court. If, therefore, the provisions of the definition of the Dual Jet unit were to be determined as not giving rights to any cause of action, that would end the matter. If, on the other hand, construed in the light most favorable to the plaintiff, that provision were determined to entitle plaintiff to maintain an action, the question must then be what the nature of that action is.

It is obvious to anyone examining the contract that its principal thrust was an agreement not to sue for any infringement of one's patent by the then existing production of a known and defined unit. It is equally true from the allegations of the complaint that this issue is not involved here for Kysor does not seek to use the covenants of the contract to defeat a patent infringement action by Pet arising out of production of the Dual Jet unit as described in the contract. What Kysor clearly alleges and seeks redress for is the alleged unlawful manufacture by Pet of its own Dual Jet unit and it seeks the protection of the contract and undertakings of Hussmann that it would not do so. Such agreements, absent the existence of valid patent rights, are void under federal law and upon their face. *Massillon-Cleveland-Akron Co.* v. *Golden State Advertisng Co., Inc.* 444 F 2d 425 (9th Cir. June 8, 1971). (P.T.C.J. June 24, 1971, page D-1).

Therefore, it is apparent that the only cause of action which will support the relief sought by Kysor in its complaint is the cause of action under the patent laws of the United States and under its patent rights to exclusivity of production of the Dual Jet unit which is challenged by Pet's conduct. Indeed, such action was specifically contemplated by the contract under paragraph I of section IV General Provisions thereof which provides:

> "This agreement does not in any way prevent Dual Jet from bringing suit against Hussmann, its subsidiaries, licensees or sublicensees, in the event that any Dual Jet patent rights are embodied in units other than the Hussmann unit as herein defined."

The basic right therefore asserted by Kysor is the right based on federal law which is the right to manufacture exclusively a unit to which plaintiff claims patent rights. This has to be the gravamen of the action regardless of the characterization which plaintiff may have endeavored to give it in the complaint.

While it is true that many of the authorities cited by defendant in its brief relate not to patent law, but to other federal law, still the court cannot concur in the observation of plaintiff's counsel in its memorandum of July 29 that these cases cited are unreliable as guides for determining the existence of a federal question in unregulated fields. On the contrary, exclusive federal jurisdiction is granted specifically by statute and the statute in turn is specifically authorized by the Constitution.

28 USC 1338(a) was enacted pursuant to the authorization of Article I, Section 8, clause 8 of the United States Constitution granting Congress the power.

> To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries;

In short, the contract specifically contemplates that each party is free to commence an action for infringement of its patents by the other in any other use than that permitted in the contract and that is precisely what plaintiff is doing here in every particular.

Both parties have referred extensively to the Lear-Adkins cases. *Lear Corp.* v. *Adkins,* supra and *Lear, Siegler, Inc.* v. *Adkins,* supra. Defendant cites them as authority for the proposition that agreements not to infringe are unenforceable as contrary to the public policy favoring the free exchange of ideas which are not otherwise protected by the patent laws. Plaintiff urges that by an examination of both cases, it will be seen that the United States Supreme Court condoned and, in fact, approved the superior jurisdiction of the state courts over the issue of infringement which arose in the action of the inventor for royalties. Both agree that the United States Supreme Court decision is a landmark in finally overthrowing the doctrine of licensee estoppel; that a licensee who has entered into a license agreement with a patent holder may not, in seeking to defeat his contract, later challenge the validity of the patent. It should first be noted that the principal issue of the state case was the right of the inventor to contract with Lear for its employment of his skill and ideas prior to patenting, an issue which the Supreme Court of the United States held to be one primarily for state determination. Thus, the second issue, that of the validity of the subsequently obtained patent was not the sole question in the case and was, in fact, a subject of a separate federal action commenced by Lear under the Declaratory Judgment Act in the United States District Court. It is further to be noted that the specific issue of removal from the federal court was never raised by Lear. Thus, one cannot know under the Lear-Adkins cases what would have

been the results, had Lear in the state case removed the same and had there been a petition to remand by Adkins.*

While matters of convenience and practicality are not necessarily persuasive of what ought to be the purely legal issue of federal jurisdiction, still some observation concerning this is warranted. A remand in this case would thrust upon the state court inevitably the obligation to determine whether or not the subsequent unit manufactured by Hussmann violated and infringed upon Kysor patents. An order of remand in this case is not appealable (28 USC 1447(d), and therefore, any decision by that court would necessarily have to be appealed through the state court system and from the highest court of the state to the United States Supreme Court. Thus, if it were then found that the remand were improper and that jurisdiction were in the federal court, at that stage, the proceedings would have to be re-commenced in federal court. Defendant's only other recourse to obtain an earlier decision would be that followed by Lear, i.e., commencing a separate patent case under the Declaratory Judgment Act in federal court which, unless stayed, would then proceed concurrently with the state court, thus occupying the time of both.

Removal does not reflect upon the state court in any way, as inferred by plaintiff's brief (page 9). Nor does it infer the case is likely to be mishandled in the state court, but it is true that in this area of law, which has been so carefully carved out for federal jurisdiction by the Constitution, its application imposes less burden upon federal

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*As an interesting side commentary, the court understands that following the United States Supreme Court decision, an agreement was made between the state and federal courts whereby the state court action was then stayed, pending resolution of the issues of patent infringement in the federal case, at which juncture the case was resolved between the parties without any further adjudication.

courts accustomed to it than it does upon state courts whose exposure to the field is necessarily more limited.

Accordingly, the plaintiff's motion to remand is denied.

IT IS SO ORDERED.

(s) ALBERT J. ENGEL
District Judge

Dated: September 1, 1971.

Appendix to District Court Opinion

COMPLAINT

(Filed June 18, 1971 in the Circuit Court for the County of Wexford, State of Michigan)

Plaintiff says:

1. Plaintiff is a Delaware corporation which has its registered office and principal place of business in the City of Cadillac, Wexford County, Michigan.

2. Defendant is a Delaware corporation which does business in the County of Wexford, State of Michigan.

3. Defendant operates truck routes which traverse Wexford County, State of Michigan.

4. The Dual-Jet Division of the plaintiff and the Hussmann Division of the defendant are both engaged in the manufacture, sale and distribution of commercial refrigeration units in direct competition with each other. The principal distinguishing or identifying characteristic of the defendant's Hussmann Division's product is that cooling is accomplished by the direct blowing of cold air on the product stored or displayed in the refrigerator unit. The

principal distinguishing or identifying characteristic of plaintiff's Dual-Jet Division's refrigerator unit is indirect cooling by the blowing of cold air through a duct which in turn is exposed to the product area and thus accomplishes cooling.

5. In the year 1965 patent infringement claims on various features of their respective units were mutually asserted, one against the other, by plaintiff's Dual-Jet Division and defendant's Hussmann Division. In settlement and disposition of these mutual claims an agreement was entered into between the two parties, who were both at that time independent corporations rather than divisions of the parties hereto as they are presently, whereby, among other things, it was expressly agreed that the defendant's Hussmann Division would not adopt or change to the method of cooling used by the plaintiff's Dual-Jet Division and that plaintiff's Dual-Jet Division would not adopt the method of cooling used by defendant's Hussmann Division. On this basis it was agreed that neither party would institute or prosecute patent infringement claims against the other.

A copy of such Agreement, dated April 5, 1965, which is herein incorporated by reference, is attached hereto and marked "Exhibit A".

6. By agreement dated July 27, 1966, a copy of which is attached hereto and marked "Exhibit B", the defendant at the time of acquisition of the Hussmann Corporation by it assumed all of the rights, duties and obligations of such Agreement, the terms of which are incorporated by reference herein.

7. The plaintiff on its acquisition of Dual Jet, Inc. assumed all of Dual Jet's rights, duties and obligations under said contract.

8. In the early part of 1971 the defendant, in total and absolute disregard of the terms of said Agreement and

in direct violation of its terms changed over to and adopted the method of cooling employed by the Dual-Jet Division of the plaintiff, i.e., indirect cooling by passing cold air through a duct rather than by blowing cold air directly on the stored or displayed product. Defendant has continuously since that time manufactured, sold, offered for sale and distributed refrigerator units and cases manufactured in direct contravention to the aforesaid Agreement marked "Exhibit A".

9. The defendant has thereby undertaken to usurp the distinguishing and identifying characteristic of plaintiff's product in violation of the Agreement marked "Exhibit A", and in so doing threatens irreparable harm and damage to the plaintiff's business in a manner which is not capable of ascertainment or compensation by an award of money damages. Unless such violation is halted by order of this Court directing specific performance of said contract, the business of the Dual-Jet Division of the plaintiff will be irreparably damaged and destroyed.

WHEREFORE, plaintiff prays:

A. That upon reading and filing of this verified Complaint there issue out of and under the seal of this Honorable Court an Order to Show Cause directed to the defendant ordering and commanding the defendant to appear before this Court at such time and place as is fixed in such Order, and then and there to show cause why a temporary injunction ought not to issue ordering and directing the defendant to maintain the theretofore established *status quo* and to absolutely desist and refrain from manufacturing, selling, offering for sale or distributing the refrigerator units or cases employing the indirect method of product cooling or employing other than the method of cooling entailing the direct blowing of cold air on the product stored or displayed, and that such injunction continue until the final disposition of this cause on its merits or until further order of this Court in the premises;

B. That the defendant file answer to this Complaint and that after a hearing upon the merits thereof this Court make permanent the injunction prayed in Paragraph A above;

C. That defendant be ordered to pay such damages and compensation for the breaches heretofore caused by it of the contract marked "Exhibit A", and that the Court also grant to the plaintiff such other and further relief as may be required in equity and good conscience; and

D. That plaintiff be awarded its costs incurred in this action.

KYSOR INDUSTRIAL CORPORATION

By (s) .....
Raymond A. Weigel
Its President

AGREEMENT

This is an agreement entered into this 5th day of April, 1965, by and between DUAL JET REFRIGERATION Co., Chicago, Illinois (hereinafter referred to as DUAL JET), and HUSSMANN REFRIGERATOR Co., St. Louis, Missouri (hereinafter referred to as HUSSMANN).

WITNESSETH THAT:

A. WHEREAS, DUAL JET is engaged in the design, development, manufacture and/or sale of upright refrigerated display cabinets for the refrigeration of frozen food products;

B. WHEREAS, DUAL JET has made and acquired certain inventions and improvements on upright refrigerated display cabinets and has acquired certain patent rights on said upright refrigerated display cabinets by way of pat-

ents, patent applications and license under patents and patent applications of others, in the United States and countries foreign to the United States;

C. WHEREAS, HUSSMANN is engaged in the design development, manufacture and/or sale of upright refrigerated display cabinets for the refrigeration of fresh and frozen food products;

D. WHEREAS, HUSSMANN has made and acquired certain inventions and improvements on upright refrigerated display cabinets and has acquired certain patent rights on said upright refrigerated display cabinets by way of patents, patent applications and license under patents and patent applications of others, in the United States and countries foreign to the United States;

E. WHEREAS, DUAL JET is desirous of the freedom for itself, its subsidiaries, licensees and sublicensees to make, use and sell the DUAL JET unit, as hereinafter defined, in the United States and foreign countries without suit for infringement upon the patent rights of HUSSMANN; *and*

F. WHEREAS, HUSSMANN is desirous of the freedom for itself, its subsidiaries, licensees and sublicensees to make, use and sell the HUSSMANN unit, as hereinafter defined, in the United States and foreign countries without suit for infringement upon the patent rights of DUAL JET;

NOW, THEREFORE, it is mutually agreed by the parties as follows:

I. DEFINITIONS

1. HUSSMANN unit: As used herein, the term "HUSSMANN unit" shall mean low temperature upright refrigerated display cabinets in which the main refrigeration

system shall include air distribution means for circulating a substantial portion of low temperature air into and through the product area and in direct contact with the product therein for cooling the product, and to discharge the remaining portion of low temperature air into an air curtain across the open front of said cabinet.

Since it is difficult to ascribe an exact percentage with respect to the "substantial portion" of low temperature air circulated into and through the product area according to the foregoing definition of "HUSSMANN unit", it is understood and agreed that the salient characteristic of the HUSSMANN unit is the positive circulation of low temperature air through the product area for direct and controlled cooling of products by intentional engineering design and manufacture to provide this salient characteristic and that HUSSMANN will not depart from its present engineering and manufacturing know-how in the direction of the DUAL JET unit utilizing essentially only indirect product cooling.

2. DUAL JET unit: As used herein, the term "DUAL JET unit" shall mean low temperature upright refrigerated display cabinets in which the main refrigeration system shall include air distribution means for circulating substantially all low temperature air around the product area in a duct having only conductive heat exchange therewith for indirect cooling of the product and to discharge substantially all low temperature air from said duct into an air curtain across the open front of said cabinet.

Since it is difficult to ascribe an exact percentage with respect to "substantially all" low temperature air discharged into the air curtain across the open front according to the foregoing definition of "DUAL JET unit", it is understood and agreed that the salient characteristic of the DUAL JET unit is the positive discharge of low temperature air into the air curtain for indirect cooling of products by intentional engineering design and manufacture to pro-

vide this salient characteristic and that DUAL JET will not depart from its present engineering and manufacturing know-how in the direction of the HUSSMANN unit utilizing direct and controlled product cooling.

3. Low temperature: As used herein, the term "low temperature" shall mean any cabinet designed for maintaining frozen food products at temperatures of about 0° F. or colder.

4. HUSSMANN patent rights: As used herein, the term "HUSSMANN patent rights" shall mean all rights of HUSSMANN in and to inventions, discoveries and improvements conceived prior to January 1, 1965 on upright refrigerated display cabinets, including all United States and foreign patent applications and patents covering such inventions, discoveries and improvements owned by HUSSMANN or under which HUSSMANN is licensed.

5. DUAL JET patent rights: As used herein, the term "DUAL JET patent rights" shall mean all rights of DUAL JET in and to inventions, discoveries and improvements conceived prior to January 1, 1965 on upright refrigerated display cabinets, including all United States and foreign patent applications and patents covering such inventions, discoveries and improvements owned by DUAL JET or under which DUAL JET is licensed.

II. COVENANTS OF HUSSMANN

HUSSMANN agrees not to bring suit for infringement under any of the HUSSMANN patent rights against DUAL JET, or any of its subsidiaries, licensees or sublicensees, for the manufacture, use or sale of any DUAL JET unit embodying any of the HUSSMANN patent rights, but only insofar as they are embodied in the DUAL JET unit. This paragraph is not to be construed as granting DUAL JET, its li-

censees or sublicensees, any right or license under the HUSSMANN patent rights.

III. COVENANTS OF DUAL JET

DUAL JET agrees not to bring suit for infringement under any of the DUAL JET patent rights against HUSSMANN or any of its subsidiaries, licensees or sublicensees, for the manufacture, use or sale of any HUSSMANN unit, embodying any of the DUAL JET patent rights, but only insofar as they are embodied in the HUSSMANN unit. This paragraph is not to be construed as granting HUSSMANN, its subsidiaries, licensees or sublicensees, any right or license under the DUAL JET patent rights.

IV. GENERAL PROVISIONS

1. This Agreement does not in any way prevent DUAL JET from bringing suit against HUSSMANN, its subsidiaries, licensees or sublicensees, in the event that any DUAL JET patent rights are embodied in units other than the HUSSMANN unit as herein defined.

2. This Agreement does not in any way prevent HUSSMANN from bringing suit against DUAL JET, its subsidiaries, licensees or sublicensees in the event that any HUSSMANN patent rights are embodied in units other than the DUAL JET unit as herein defined.

3. This Agreement is assignable by either party along with its entire business and rights in the upright refrigerated display cabinets, but is not otherwise assignable without written consent of the other party.

4. Unless otherwise terminated by mutual consent between the parties, this Agreement shall not terminate until the expiration of the last of the patents included within the patent rights of either party.

Appendix to District Court Opinion

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their duly authorized officers on the date first above written, and have caused their respective corporate seals to be impressed hereon.

DUAL JET REFRIGERATION CO.

By (s) .....
Charles S. Potter

ATTEST:

.....
Herman I. Hersh

HUSSMANN REFRIGERATOR CO.

By (s) .....
C. M. Ruprecht

ATTEST:

.....
W. B. McMillan

Opinion of the Court of Appeals

No. 71-1916

UNITED STATES COURT OF APPEALS

FOR THE SIXTH CIRCUIT

KYSOR INDUSTRIAL CORPORATION,
Plaintiff-Appellant,

v.

PET INCORPORATED,
Defendant-Appellee.

APPEAL from the United States District Court for the Western District of Michigan, Southern Division.

Decided and Filed May 5, 1972.

Before PHILLIPS, Chief Judge, WEICK, Circuit Judge, and RUBIN*, District Judge.

PER CURIAM. Kysor appeals from an order denying its motion to remand the case to the State court from which it was removed.

Since this order is interlocutory, appeal ordinarily would await final judgment on the merits. However, Kysor's motion for a preliminary injunction also was denied. Because the case is properly before the court for review of the latter action and since the remand question is jurisdictional, the remand issue must be reached. *Mayflower Industries* v. *Thor Corp.*, 184 F. 2d 537, 538 (3rd Cir. 1950), *cert. denied*, 341 U. S. 903 (1951).

We reverse.

The relevant facts are undisputed and may be stated briefly. Dual Jet Refrigeration and Hussmann Refrigera-

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* Honorable Carl B. Rubin, Judge, United States District Court for the Southern District of Ohio, sitting by designation.

tor[1] manufactured open display cases for food items which must be maintained at low temperatures. In these units, heating of the food by ambient air is prevented by directing a cold air curtain across the open face of the unit. The principal difference between the display cases of the respective manufacturers was in the manner of cooling the food. The Hussmann units utilized a direct cooling action in which a substantial cold air flow was directed across the displayed product before forming part of the air curtain. In the Dual Jet units, the cold air was passed through ducts in the shelves, indirectly cooling the food by conduction before forming the air curtain.

Both Hussmann and Dual Jet owned patents covering various aspects of refrigerated display case technology. A dispute involving these patents was settled in 1965 and a settlement agreement executed. The parties expressly covenanted not to sue one another for patent infringement so long as the cooling action used by the other was unchanged. The agreement further provided as follows:

> "[I]t is understood and agreed that . . . HUSSMANN will not depart from its present engineering and manufacturing know-how in the direction of the DUAL JET unit utilizing essentially only indirect product cooling.
>
> • • •
>
> "[I]t is understood and agreed that . . . DUAL JET will not depart from its present engineering and manufacturing know-how in the direction of the HUSSMANN unit utilizing direct and controlled product cooling."

Pet began manufacturing and selling display cases utilizing indirect cooling action in 1971. Kysor brought an

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[1] Dual Jet and Hussmann are now a division of Kysor and a subsidiary of Pet, respectively. Both are Delaware corporations. Manifestly there is no diversity of citizenship.

action in the Circuit Court for Wexford County, Michigan, seeking injunctive and monetary relief. The complaint alleged that Pet's activities constituted a breach of the above-quoted provisions of the agreement. Pet removed the action to the United States District Court for the Western District of Michigan. Kysor's motions to remand to the Wexford Circuit Court and for a preliminary injunction were denied.

Pet's jurisdictional theory, upon which removal was predicated, is that the agreement, construed as asserted by Kysor in its complaint to bar Pet's manufacture and sale of indirect cooling units, was void and unenforceable under federal anti-trust law in the absence of valid and infringed patents. Pet therefore contends that the action turns on questions of patent validity and infringement and thus is exclusively within federal jurisdiction under 28 U.S.C. § 1338 (a).

We cannot accept this theory. It is well established that every case involving patent issues is not a "civil action arising under any Act of Congress relating to patents," as set forth in § 1338(a). Actions to enforce patent license agreements are not within exclusive federal jurisdiction notwithstanding the availability of the invalidity defense. *See Lear, Inc.* v. *Adkins*, 395 U. S. 653 (1969). Kysor is free to file and maintain a contract action in State court which may be subject to federal patent-anti-trust law defenses. These issues are for the State court to resolve. Kysor elected to assert only contract rights in State court. Pet may not, by asserting that Kysor's only *valid* cause of action is by way of suit for patent infringement, convert this action into one arising under the patent laws of the United States.

Accordingly the order denying the preliminary injunction is vacated and the cause remanded to the District Court with directions to enter an order, pursuant to 28 U.S.C. § 1447(c), remanding the action to the Wexford Circuit Court.

Order

(Filed July 18, 1972)

No. 71-1916

UNITED STATES COURT OF APPEALS

FOR THE SIXTH CIRCUIT

KYSOR INDUSTRIAL CORPORATION,
a Delaware corporation,
Plaintiff-Appellant,

v.

PET INCORPORATED,
a Delaware corporation,
Defendant-Appellee.

Before PHILLIPS, Chief Judge, WEICK, Circuit Judge, and RUBIN, District Judge.*

Upon consideration, it is ORDERED that the petition for rehearing be and hereby is denied.

Entered by order of the court.

JAMES A. HIGGINS
Clerk

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* Honorable Carl B. Rubin, Judge, United States District Court for the Southern District of Ohio, sitting by designation.